The Economic Effects of Professional Sports Franchises on their Host Cities

By Evan Tilton

12/2005

The Economic Effects of Professional Sports Franchises on their Host Cities

"We play the Star Spangled Banner before every game—you want us to pay taxes, too?" Those were the words of Bill Veeck,[1] former owner of the Milwaukee Brewers, Cleveland Indians, St. Louis Browns, and Chicago White Sox and member of the National Baseball Hall of Fame.[2] Perhaps this quote sums up the attitude that rules professional sports today. Professional sports have long been an integral part of American life, with children idolizing their sports heroes, major cities gathering together in the stadium of their local franchise, and team owners and players earning enormous sums of money. Florida especially seems to be a state ideal for sports; beautiful weather year round, several large cities, and a thriving tourism industry draw all of the major sports leagues. Everyone seems to benefit; team executives get their earnings while the city reaps all the benefits of hosting a major league franchise. But is being home to a team really all it is cracked up to be? Though cities compete fiercely for the honor of hosting professional sports teams, often citing benefits such as economic growth to convince the

populace that this is really what is best for the city, these franchises may really not be bringing Florida all the benefits they promise, and they may even be doing more harm than good.

Since the beginning of the twentieth century, pro sports have been a booming business and have come to inhabit nearly every major metropolitan area in the United States. Cities compete fiercely with one another to draw prospective MLB, NBA, NFL, and NHL teams to within their city limits. Why do they do this? It has long been the assumption that such a major business as a sports team and its accompanying facilities would stimulate the economy by increasing income, generating new jobs, attracting new businesses, and generating tax revenue and lease payments.[3] In the mid-1990s, advocates of bringing a new NFL team to Jacksonville funded a study which claimed that the franchise could produce as much as $340 million in new income for the city while creating 3,000 new jobs.[4] In addition to pecuniary benefits, sports franchises are touted as bringing a number of intangible effects such as boosting civic pride, creating a long term tourism legacy, and building up a better sense of community within the city. If all these figures and ideas are accurate, then professional sports are surely a boon to society. Unfortunately, things are not nearly that clear cut. Economically, there is a great disparity between publicly funded studies and more academic literature on the subject. As far as the other benefits, these are things that cannot be quantitatively measured or analyzed.

One of the most obvious needs of a sports team is its facilities: the stadium or arena in which it plays. Today, around 70 percent of stadiums and arena are publicly funded and owned,[5] with as high a number as 93 percent public ownership in the NFL.[6] Cities and their populous are generally willing to sacrifice public funds to construct these stadiums in order to keep the teams that already reside there and to attract new teams, all

in order to reap the supposed benefits already mentioned. Because of this, there is great competition among our nation's cities, and team owners are able to use this competition as leverage to acquire funding for new facilities. In fact, nearly all professional sports franchises have used threats of moving to a new city as leverage for some type of gain from the city at some point in the past decade.[7]

Florida's cities, like cities throughout the nation, have also expended millions of dollars on publicly funded sports facilities, with all stadiums and arenas being publicly owned except for the Florida Marlins' Pro Player Stadium, which is owned by the team. Though most teams pay some form of rent, this normally comes nowhere near covering the cost of stadium construction, which, in recent years, has grown to astronomical costs.[8] Raymond James Stadium, home of the Tampa Bay Buccaneers, cost $168 million to build in replacement of the old Houlihan Stadium, which cost only $14 million to build in 1967.[9] Tropicana Field, home of the Tampa Bay Devil Rays, cost $138 million to build initially plus another $85 million for renovation to prepare it for baseball in 1996 for a total of over $223 million.[10] Though contracts for the naming rights often pay for a portion of the construction costs, the vast majority of the money comes directly from public funds and taxes.[11]

Such public expenditures might be justified if the the sports team creates enough of a positive economic impact on the local economy so as to offset the cost of hosting the team. Unfortunately, this does not seemed to be the case. There is a great disparity among the studies done in this area; impact studies funded by advocates of sports teams generally predict great economic gains, in the hundreds of millions of dollars range, while the academic studies generally find zero or negative impact. This leads one to wonder where the differences in the findings of the studies arise, and which set of studies is more

accurate as a result. There are several primary differences between the two types of studies. The impact studies use multipliers, not found in academic studies, to determine the effect of each dollar spent on the sports team on the rest of the community. This likely inflates the economic impact, because it does not differentiate between net spending and gross spending.[12] Dennis Coates and Brad R. Humphreys explain,

> In computing the benefits of the investment in a stadium, the appropriate focus is on net benefits, that is, on benefits that would not have occurred in the absence of the stadium. Impact studies rarely consider this issue. One could think of this concern as the substitution effect. Specifically, because of sport- and stadium-related activities, other spending declines as people substitute spending on one for spending on the other. If the stadium simply displaces dollar-for-dollar spending that would have occurred otherwise, then there are no net benefits generated.[13]

Another aspect that impact studies fail to account for is other possible uses of the tax dollars spent on stadiums and arenas. The best way to invest tax dollars is on whatever investment brings the highest return, but the impact studies do not consider that there may be alternative investments other than the stadiums and sports franchises.[14] Impact studies also usually only look at one city and one small economy. Academic studies, on the other hand, usually consider a variety of cities.[15]

It is for these reasons that academic studies find such low economic impacts and that they are likely the more accurate of the two types of studies. Roger G. Noll and Andrew Zimbalist found that professional sports do not have any measurable effect on economic growth in metropolitan areas.[16] Robert A. Baade and Allen R. Sanderson performed a study on sports and job creation, and found that “the results of this study do not support a positive correlation between professional sports an job creation. This finding suggests that professional sports realign economic activity within a city's leisure industry rather than adding to it.”[17] The Federal Reserve Bank of Minneapolis also agrees

that professional sports rarely deliver economic value, stating that "current research indicates that stadiums and arenas have a particularly bad track record when it comes to delivering on promises of community economic windfalls."[18] One of the most comprehensive studies, performed by Coates and Humphreys, found no effect on the growth rate of real per capita income and, in stark contrast to the impact studies, a negative effect on the level of real per capita income.[19] Despite slight variations in their findings, nearly all academic studies seem to find zero or negative impact of sports franchises on their host cities' economies.

These findings lead one to wonder how such a large business as sports franchise could possibly have no effect, or even a negative effect, on the economy in which it is located. One possible contributing factor is substitution in public spending. The public funds used to finance sports teams and their facilities have other possible uses, and putting them into a sports team instead of some other investment, which could potentially generate new businesses, may hurt the economy's capacity for producing goods and services unrelated to sports. Similarly, substitution in private spending is another likely explanation. Individual households have a limited amount of money to spend, only a small portion of which will be spent on entertainment activities such as attending professional sports events. Chances are that if the professional sports team was not present, the individuals that spent money on sports would spend it on some other form of entertainment in the economy anyway. In addition, spending the money elsewhere in the economy may actually be more beneficial than spending it on attending sports events if the replacement activities keep more of the income within the local economy than the sports team would have.[20] Tom Ferguson, former president of the Beacon Council, which promotes economic development in Dade County, sums up substitution well:

> When you get right down to it, I mean, sure, there's impact in baseball, but ... one has to ask the question, 'Well, if you didn't spend your eight dollars on that baseball ticket, wouldn't you have spent it somewhere else?' Chances are you'd have probably spent it elsewhere in the market place.[21]

A related study found that professional sports did have a positive effect on employee earnings in the Amusements and Recreation sector of the local economies, but that there was a decrease in other sectors which offset this gain.[22] This further supports substitution as a valid explanation.

Other possible explanations deal with more intangible effects. If workers are willing to sacrifice some income in order to work in a city with professional sports so that they may enjoy some intangible benefit associate with the sports, the overall per capita income in that city may end up slightly lower than in cities without sports franchises. In addition, perhaps the presence of professional sports reduces the productivity of workers in the city. Over a period of many years, productivity lost to office chatter about last night's game could possibly add up to a measurable loss in productivity.[23]

To further support the idea that professional sports do not have a significant positive impacts on a city's economy, one can look at the effects produced by strikes and lockouts within professional sports leagues. If the sports franchises are an integral contributing factor to a local economy, then it would be expected that a strike or lockout would have a severe negative impact on the economy, but this does not seem to be the case. Coates and Humphreys found, in a study that focused primarily on the 1998-1999 NBA lockout but also considered previous work stoppages in baseball and football, that strikes and lockouts have “no impact on the economies of cities with franchises.”[24] This is further supported by a study by John F. Zipp on Major League Baseball's spring training in Florida, which noted that the baseball strike of 1995 did not seem to affect the

economies of Florida counties that are home to a team during spring training.[25]

In addition the the many major league franchises that call Florida home, Florida is also home to a number of minor league teams. These franchises likely have an even smaller effect on local economies than the major league teams, according to Mark Rosentraub, who says, "Given the relatively small to nonexistent benefits from team sports at the higher levels, one should not expect anything or very, very little from minor league activities."[26]

It might seem that a team's success in their league would have some effect on its economic worth to a city. A winning team might bring a wealth of growth and benefits, while a losing team might be more of an economic drain. This logic could be used to argue that more funds should be spent in order to support a team and help it achieve success, and this claim is frequently used to justify such public expenditures.[27] But in actuality, a teams performance does not seem to have any correlation to its economic impact. Coates and Humphreys found in a recent study that, with the exception of Super Bowl victory, there is no change in real per capita income in relation to post-season play.[28]

The Super Bowl presents a unique situation among professional sports championships because the participants in the game are irrelevant to the location of the event. In considering the Super Bowl's economic impact, one must consider both the home cities of the teams involved as well as the city that hosts the event. Coates and Humphreys found that, unlike post-season participation and victory in other sports, the home city of the team that wins the Super Bowl has a real per capita personal income that is approximately $140 higher than that of other cities. The study suggests that these findings may reveal a link between Super Bowl and worker productivity.[29]

In looking at the effects of hosting the Super Bowl, one runs into a number of the same problems as one encounters when considering the effects of professional sports as a whole. Again, there is a great disparity among economic studies done on the subject. Impact studies by advocates of hosting the Super Bowl generally predict huge positive economic impacts. For example, impact studies predicted net real economic impacts of $365 million for Super Bowl XXIX in 1995 in Miami, $365 million for Super Bowl XXXIII in 1999 in Miami, $250 million for Super Bowl XXXV in 2001 in Tampa, and $300 million for Super Bowl XXXIX in 2005 in Jacksonville. Academic studies generally agree that these figures are inflated and flawed, for the same reasons that impact studies on the presence of sports franchises are flawed. Advocates of hosting the Super Bowl also cite intangible benefits, such as the lasting tourism legacy and the great number of important executives attracted by the Super Bowl.[30] The actual effects of the Super Bowl are probably significantly smaller than what these studies predict. Hotel occupancy rates do rise by about 1.25 to 7.3 percent when compared to occupancy in the same month of the previous year.[31] Among academic studies there is some disagreement as to the actual net economic impact. Robert Baade and Victor Matheson found that the actual economic impacts of Super Bowl XXXIII in Miami were approximately one-tenth of what was predicted, and that the net impacts of the Super Bowl generally range from $21 million to $32 million, figures which are significantly smaller than those claimed by advocates of the game. They also estimate that the Super Bowl creates around 500 new job, but most of these are short-term and part-time, yielding little long term benefits. Philip Porter, on the other hand, suggest that the actual net impacts may be zero. If any real benefit lies in hosting the Super Bowl, most probably goes to those already employed in the service sector as well as elected officials, who gain political capital.[32] The figures suggest that any

benefits produced by post-season play, including the benefits of the Super Bowl, are probably not significant enough to justify expenditures on professional sports.

Major League Baseball's spring training is a phenomenon that is, for the most part, unique to Florida. (Eight teams hold their spring training in Arizona, but the vast majority of teams come to Florida's Grapefruit League.) For the most part, spring training works the same and has the same effects as regular season sports, but the economies of the Florida counties in which it takes place are, on average, much smaller than those involved in the regular season. For this reason, they should be more subject to any economic effects generated by the franchises. Like cities that host teams during the regular season, spring training hosts frequently use public funding to build stadiums and attract teams, and these expenses are justified with claims of great economic growth. These claims are backed up by more impact studies, all of which show huge net gains. But, once again, academic literature disagrees and finds that the actual effects are probably much smaller. This is because the only real economic gains spring training would generate would come from tourists who visit Florida solely because of spring training and who would not have come if spring training was not present. All other spending related to spring training would have occurred anyway, elsewhere in the market place, regardless of spring training. By analyzing the effects of the 1995 spring training season, which was affected by the MLB strike, on taxable sales versus the effects of previous season, John F. Zipp conducted a study on the overall economic effects of spring training. His findings showed no significant benefits to the economy. However, he concedes that, although the individual counties may not be directly affected, the state as a whole may see some benefits in the tourism industry because when tourist attractions are in close proximity to each other they seem to have a greater cumulative draw.[33] Again, the figures do not seem to show a great

enough benefit to justify public expenditures on professional sports.

The final aspect of the effects brought by professional sports to their host cities that one must look at in order to determine their overall worth is any intangible, non-pecuniary benefits which they might bring. Sports may help to develop a long term tourism legacy in their host city and its surrounding area. For example, a family may begin taking annual vacations to see their favorite sports team perform, and they may enjoy visiting the area so much that they continue making the trip even if the sports team were to leave. Perhaps a member of the family even eventually moves to the city at some point down the line, as an indirect result of the sports franchise's presence. Such consequences cannot be adequately measured. Other possible benefits include an increase in civic pride and the potential for sports to help build a greater sense of community in the city, but professional sports do not seem to be the only or the most effective means of doing this. And, of course, there is the sense of personal attachment that individuals may come to feel towards the teams that they support. This attachment may be so great that "psychologists have compared the loss of a sports franchise to the trauma experienced at the death of a loved one."[34]

Overall, the presence of professional sports franchises and their facilities does not seem to have a significant positive effect on the Florida's cities, or cities throughout the nation, for that matter. Despite the overwhelming evidence that professional sports are not effective investments for public funds, Florida's cities continue to direct millions of dollars toward the industry. Unless the intangible benefits that cannot be quantitatively analyzed outweigh and offset the cost of supporting a franchise, professional sports probably have no positive effects, and may even have a negative effect on the economy. Until this system of the public's propping up of the sports industry by building stadiums

and arenas with public funds and taxes is altered, the only ones reaping the benefits will continue to be the moguls who own the sports franchises.

1 Dennis Coates and Brad R. Humphreys, “The Stadium Gambit and Local Economic Development,” Regulation, Vol. 23, No. 2, 2000, <http://www.cato.org/pubs/regulation/regv23n2/coates.pdf> (viewed 22 Sept. 2004) 15.

2 “Bill Veeck,” Wikipedia, <http://en.wikipedia.org/wiki/Bill_Veeck> (viewed 5 Dec. 2004).

3 Robert G. Noll and Andrew Zimbalist, eds., Sports, Jobs, and Taxes: The Economic Impact of Sports Teams and Stadiums (Washington, DC: Brookings Institution Press, 1997) 1-2.

4 Coates and Humphreys, “Stadium Gambit,” 16.

5 Charles C. Euchner, Playing the Field: Why Sports Teams Move and Cities Fight to Keep Them (Baltimore: Johns Hopkins University Press, 1993) 6.

6 Coates and Humphreys “Stadium Gambit,” 16.

7 Euchner 5-6.

8 Noll and Zimbalist 32-53.

9 Noll and Zimbalist 5.

10 “Ballpark History,” Tampa Bay Devil Rays: The Official Site, <http://tampabay.devilrays.mlb.com/NASApp/mlb/tb/ballpark/tb_ballpark_history.jsp> (viewed 5 Dec. 2004).

11 Noll and Zimbalist 9-11.

12 Coates and Humphreys “Stadium Gambit,” 17.

13 Coates and Humphreys “Stadium Gambit,” 17.

14 Coates and Humphreys “Stadium Gambit,” 17.

15 Coates and Humphreys “Stadium Gambit,” 18.

16 Noll and Zimbalist 88.

17 Noll and Zimbalist 112.

18 Ronald A. Wirtz, “Stadiums and Convention centers as Community Loss Leaders,” fedgazette, March 2001, <http://minneapolisfed.org/pubs/fedgaz/01-03/stadiums.cfm> (viewed 5 Dec. 2004).

19 Dennis Coates and Brad R. Humphreys, “The Growth Effects of Sports Franchises, Stadia, and Arenas,” 11 Jun 1998, University of Maryland Baltimore County, <http://research.umbc.edu/%7Ecoates/work/v698.pdf> (viewed 5 Dec. 2004) 1, 22-23.

20 Coates and Humphreys, “Stadium Gambit,” 19-20.

21 David Whitford, Playing Hardball: The High-Stakes Battle for Baseball's New Franchises, (New York: Doubleday, 1993) 31.

22 Dennis Coates and Brad R. Humphreys, “The Effect of Professional Sports on Earnings and Employment in the Services and Retail Sectors in U.S. Cities,” 4 Sept. 2001, University of Maryland Baltimore County, <http://research.umbc.edu/%7Ecoates/work/employment04.pdf> (viewed 5 Dec. 2004) 1.

23 Coates and Humphreys, “Stadium Gambit,” 20.

24 Dennis Coates and Brad R. Humphreys, “The Economic Consequences of Professional Sports Strikes and Lockouts,” 16 Mar. 2000, University of Maryland Baltimore County, <http://research.umbc.edu/%7Ecoates/work/lockout200.pdf> (viewed 5 Dec. 2004) 1.

25 Noll and Zimbalist 446-448.

26 Wirtz.

27 Dennis Coates and Brad R. Humphreys, “The Economic Impact of Postseason Play in Professional Sports,” 18 Oct. 2001, University of Baltimore Maryland County, <http://research.umbc.edu/%7Ecoates/work/playoff_brh.pdf> (viewed 5 Dec. 2004) 3.

28 Coates and Humphreys, “Postseason Play,” 2.

29 Coates and Humphreys, “Postseason Play,” 2, 7-9.

30 Craig A. Depken, II and Dennis P. Wilson, “Ask the Expert: What is the Economic Impact of Hosting the Super Bowl?” Texas Labor Market Review, Jan. 2003, <http://www.tracer2.com/admin/uploadedPublications/121_tlmr0301.pdf> (viewed 5 Dec. 2004) 10.

31 Depken and Wilson 10.

32 Depken and Wilson 11.

33 Noll and Zimbalist 427-448.

34 Euchner 5.